

BAD POLICY BAD MEDICINE



**Bush Plans for Taxes and
Prescription Drugs
Unfair to Working Families
and Seniors**

A  **US ACTION** Report in Conjunction with Citizens for Tax Justice

Bad Policy, Bad Medicine:

Bush Plans for Taxes and Prescription Drugs
Unfair To Working Families and Seniors

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Bad Policy, Bad Medicine

Bush Plans for Taxes and Prescription Drugs Unfair To Working Families and Seniors

I. Executive summary

America's seniors are the primary victims of skyrocketing drug costs – they disproportionately lack prescription drug coverage and are among the only people who are forced to pay retail prices for prescriptions. As pharmaceuticals are increasingly being used for prevention and treatment, the average cost per prescription has also increased faster than the overall consumer price index and the indices for other basic necessities. In the last decade, though older Americans, on average, saw some growth in their incomes, this growth has not been enough to keep pace with skyrocketing drug prices. The squeeze on household budgets was even greater for seniors whose income was stagnant or grew more slowly than average. Older Americans at all income levels are forced to make difficult choices between prescription drugs and other necessities.

Against this backdrop of real need among America's seniors, President Bush has introduced a tax cut that will drain essential federal funding needed to pay for a comprehensive Medicare prescription drug benefit for all seniors. While President Bush asserts that the "average" family would receive a tax cut of \$1,600, this claim is false. Nine out of ten taxpayers would receive less than \$1,600 in tax cuts; 27 percent would receive no tax cut at all. The typical single taxpayer would get only \$249 a year from the Bush plan, even when it is fully in place in 2008; the typical couple would save \$1,028; and overall, the median tax cut would be only \$453. But the President is giving a massive tax-cut windfall to the wealthiest one percent of Americans – people who, on average, earn more than one million dollars annually.¹

¹ Source: Citizens for Tax Justice.

Over ten years, the Bush tax cuts to the best-off one percent would total \$774 billion. That amount, plus the ten-year cost of Bush's inadequate "Immediate Helping Hand" drug proposal, is equal to more than what it would take to pay for a truly comprehensive prescription drug plan for seniors. While Bush's drug proposal would provide coverage only to the one percent of Medicare beneficiaries who spend over \$6,000 per year out of pocket and fails to address the high cost of prescription drugs, a comprehensive Medicare prescription drug benefit would build on a successful and reliable system, cover all seniors and be able to negotiate lower prices using its vast purchasing power.

In evaluating the Bush tax proposal, Congress and the public face a stark choice: Does America need a huge tax cut for the very wealthiest or would we prefer a comprehensive prescription drug plan for seniors?

The Bush tax proposal and drug plan are bad policy. The drug plan hardly helps any seniors. The tax plan unfairly prioritizes givebacks to those who do not need help over preserving federal funding for meeting the needs of seniors and working families who are caring for elderly parents. The resources spent on these misguided proposals combined could pay for a much needed program – a comprehensive Medicare prescription drug benefit for all seniors.

II. Need for prescription drugs under Medicare

For America's seniors, the cost of prescription drugs is an increasingly significant financial burden. When Medicare was first enacted in 1965, pharmaceutical therapies were not as common as they are now. However, today, they are a primary form of medical care, and they often substitute or reduce the need for other costly medical services. Eighty percent of seniors use at least one prescription drug ever day.² Despite this growing reliance on prescription drugs for prevention and treatment of many conditions, Medicare does not generally cover prescriptions on an outpatient basis. About one-third of the Medicare population lacks prescription drug coverage. People without drug coverage paid nearly 15 percent more than the customer with prescription coverage in 1999.³

As a result of their lack of coverage, older Americans pay a much larger share of drug costs out of their pockets than those who are under 65. Seniors without prescription drug coverage paid an average of \$463 out of pocket in 1996.⁴ For elderly couples, the percent of the average Social Security benefit consumed by prescription drug spending has increased dramatically – from 8.4% in 1992 to 13.5% in 1999 – and their average expenditures on drugs have outpaced their median income.⁵ Median income for elderly married couples grew 30.7% from 1993 to 1999, but average expenditures on prescription drugs grew 82.1 percent during the same time period.⁶ This greater burden impacts not only low-income seniors, but middle-income seniors as well.⁷ Seniors are also least likely to receive the benefit of price discounts often provided to bulk purchasers such as health plans that cover younger

² AARP, In Brief: Out-of-Pocket Health Spending by Medicare Beneficiaries Age 65 and Older: 1999 Projections (Public Policy Issue Brief #1B41).

³ Consumers Union, Prescription Drugs for Medicare Beneficiaries: 10 Important Facts. April 14, 2000.

⁴ Consumers Union, Prescription Drugs for Medicare Beneficiaries: 10 Important Facts. April 14, 2000.

⁵ Office of the Actuary, Social Security Administration and Families USA.

⁶ USAction, Impossible Choices: Food, Housing or Prescription Drugs, October, 2000.

⁷ The Commonwealth Fund, Designing a Medicare Drug Benefit: Whose Needs Will Be Met? December, 2000.

populations.⁸ Thus, America's seniors are forced to make difficult choices between the prescription drugs they need and other necessities of life, from food, clothing and shelter to other medical services and transportation.

⁸ Consumers Union, Prescription Drugs for Medicare Beneficiaries: 10 Important Facts. April 14, 2000.

III. The Comprehensive Prescription Drug Plan

Given the increasing importance and soaring costs of prescription drugs, seniors need a real legislative remedy – one that is universal, comprehensive, voluntary and affordable. Such a plan should build on Medicare, a successful existing health care coverage mechanism that also offers the additional benefit of its unique tremendous purchasing power as an effective mechanism for containing prescription drug prices.

In contrast, the Bush “Helping Hand” drug proposal gives a check to the states, with few guarantees that seniors will get access to the prescription drugs they need. The plan also continues to pad the profits of pharmaceutical companies by doing almost nothing to address the high cost of prescription drugs.

While a Medicare prescription drug program would extend a successful and familiar program for hospital and physician services to 94 percent of all seniors, existing state-based, low-income programs enroll only a minority of seniors. Coverage can also be more cost effectively provided under Medicare because it can negotiate lower prices for prescription medications using its vast purchasing power.

Under the Bush drug plan, only one percent of Medicare beneficiaries would receive direct compensation for their high drug costs because just one percent of Medicare beneficiaries spend more than the plan’s threshold of \$6,000 a year out-of-pocket on prescription drugs.

The comprehensive plan used for comparison in this study is a Medicare plan with a \$23 per month premium, an 80% Medicare/20% individual copay and a \$4,000 cap on out of pocket expenditures. Its estimated cost over ten years is \$885 billion.^{9,10}

⁹ Estimate by Joint Economic Committee.

IV. The Beneficiaries of the Bush Tax Plan

President Bush has submitted a tax cut proposal to Congress patterned after the \$1.6 trillion ten-year tax reduction proposal he made during the 2000 presidential campaign. Bush asserts that the “average” family will receive a tax cut of \$1,600. But this claim is false. In fact, nine out of ten taxpayers would receive less than \$1,600 in tax cuts; 27 percent would receive no tax cut at all. In 1999 dollars, the typical single taxpayer would get only \$249 a year from the Bush plan, even when it is fully in place in 2008; the typical couple would save \$1,028; and overall, the median tax cut would be only \$453.¹¹

In contrast, the top one percent of earners would receive an average annual tax cut of \$46,000 (in 1999 dollars) – 200 times more than the typical taxpayer.¹²

Over ten years, the wealthiest one percent will receive a total of \$774 billion in tax cuts under the Bush plan — 43 percent of the total proposed tax cuts.¹³ For this narrow slice of the population— whose incomes will average \$1.1 million in 2003 — the Bush tax plan offers total tax cuts over ten years that would average more than \$563,000 each.

George W. Bush’s Tax Plan (Annual effects at 1999 income levels)

Income Group	Average Tax Cut	% of Total Tax Cut
Lowest 20%	\$ -42	0.8%
Second 20%	-187	3.5%
Middle 20%	-453	8.4%
Fourth 20%	-876	16.2%
Next 15%	-1,447	20.1%
Next 4%	-2,253	8.4%
Top 1%	-46,072	42.6%
ALL	\$ -1,070	100.0%

ADDENDUM

Bottom 60%	\$ -227	12.6%
Top 10%	-6,410	59.4%

¹⁰ See chart, p. 8, line 2

¹¹ Citizens for Tax Justice, August 1999.

¹² *Ibid.*

¹³ This figure is based on the sum of the year-by-year tax cuts for the top one percent under Bush’s tax plan as proposed. It does not include any suggested or likely increases in the size of the Bush tax cuts, such as phasing it in earlier or adjusting the Alternative Minimum tax, nor does it include the additional interest on the national debt that the tax cuts would entail. The only adjustment to the May 1999 Joint Committee on Taxation tax cut estimates for the Bush plan was to update those estimates to match the new economic and revenue projections from the Congressional Budget Office. Source: Citizens for Tax Justice, based on data from the Institute on Taxation and Economic Policy Tax Model (Feb. 2001); the Joint Committee on Taxation (May 1990); and the Congressional Budget Office (Jan. 2001).

IV. Comparison — tax cuts for the wealthy vs. drug benefits for seniors

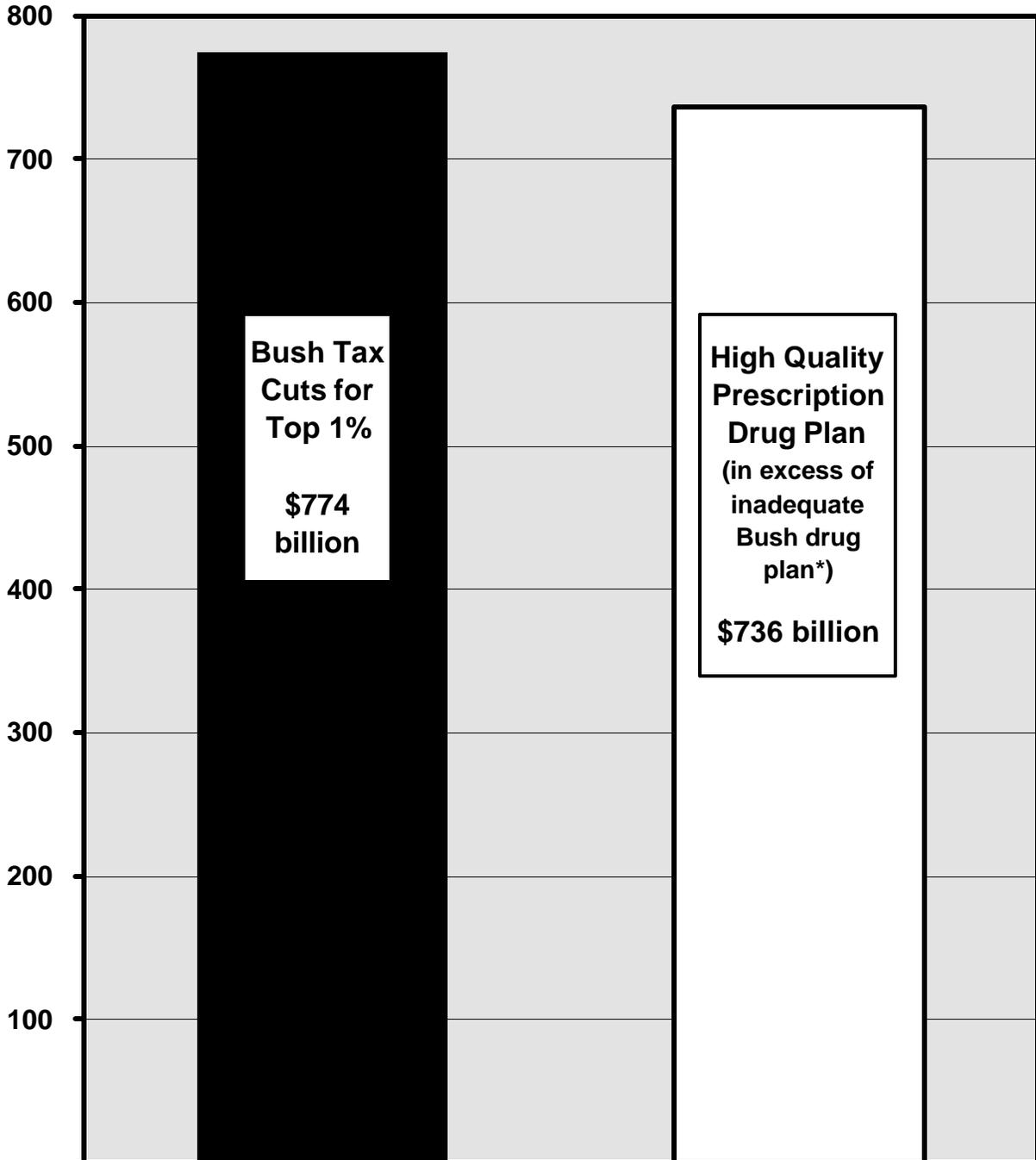
Over ten years, Bush's tax cuts for the best-off one percent would cost \$774 billion. This alone is equal to 88 percent of the \$885 billion ten-year cost of a comprehensive Medicare prescription drug benefit. The combination of what Bush has already budgeted \$48 billion over four years for his barebones prescription drug proposal plus his tax cuts for the top one percent over ten years is equal to 93 percent of the cost of a comprehensive Medicare prescription drug benefit that would provide real coverage for all seniors. If we extend Bush's drug plan over *ten years* and add that cost to the size of his tax cuts for the best-off one percent, then the sum equals 105 percent of the cost of a comprehensive prescription drug plan.

In other words, were we to forgo Bush's tax cuts for the top one percent, we would have the resources available to pay for a truly comprehensive prescription drug benefit for seniors.

Bush tax cuts for the best-off 1% compared to the cost of a high-quality prescription drug plan for seniors

<i>-\$-billions</i>	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	02-11
Bush tax cuts to the top 1% (calendar years)	\$ 18.6	\$ 25.3	\$ 41.7	\$ 60.0	\$ 78.6	\$ 94.4	\$ 104.8	\$ 109.7	\$ 116.9	\$ 124.4	\$ 774.4
High-quality prescription drug plan (fiscal years)	33.9	52.3	60.5	69.4	80.2	92.7	103.6	116.0	130.1	146.0	884.7
Tax cuts to top 1% as % of drug plan	55%	48%	69%	86%	98%	102%	101%	95%	90%	85%	88%
Bush drug plan, 4 years	\$ 7.3	\$ 11.3	\$ 12.4	\$ 13.6	\$ 3.5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 48.0
Net cost of high-quality drug plan in excess of Bush short-term plan	\$ 26.6	\$ 41.0	\$ 48.1	\$ 55.8	\$ 76.7	\$ 92.7	\$ 103.6	\$ 116.0	\$ 130.1	\$ 146.0	\$ 836.7
Top 1% tax cuts as % of net drug cost	70%	62%	87%	108%	102%	102%	101%	95%	90%	85%	93%
Bush drug plan if continued for 10 yrs	\$ 7.3	\$ 11.3	\$ 12.4	\$ 13.6	\$ 14.6	\$ 15.6	\$ 16.7	\$ 17.9	\$ 19.1	\$ 20.4	\$ 148.8
Net cost of high-quality drug plan in excess of Bush plan if continued	\$ 26.6	\$ 41.0	\$ 48.1	\$ 55.8	\$ 65.6	\$ 77.1	\$ 86.9	\$ 98.2	\$ 111.0	\$ 125.5	\$ 735.9
Top 1% tax cuts as % of net drug cost	70%	62%	87%	108%	120%	122%	121%	112%	105%	99%	105%
ADDENDUM:											
Number in top 1% (million)	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	10 years
Average tax cuts, top 1%	14,120	19,100	31,080	44,290	57,480	68,340	75,120	77,900	82,190	86,560	\$ 563,250

**Bush Tax Cuts for the Top One Percent Vs.
A High-Quality Prescription Drug Plan for Seniors
(10-year figures in billions of dollars)**



**Figures assume Bush's 4-year \$48 billion drug plan is extended for 10 years.*

V. Conclusion

In evaluating the Bush tax proposal, Congress and the public face a stark choice: Does America need a huge tax cut for those at the very top of the income scale? Or would we prefer a comprehensive prescription drug plan for seniors?

President Bush has made his preference known, in favor of huge upper-income tax breaks and against an adequate prescription drug plan. Whether Congress and the public will find the President's priorities attractive remains to be seen.

USAction is the nation's largest consumer organization, with 37 affiliates representing over 4 million members. **USAction** advocates for quality, affordable health care for all Americans. Through working with key lawmakers and organizing at the grass-roots to raise awareness, **USAction** has led the fight for prescription drug benefits at both the state and national levels. **USAction** also advocates for quality public schools for all students, a safe and clean environment and consumer rights.

State affiliates: AZ Citizen Action, CO Progressive Coalition, CT Citizen Action Group, FL Consumer Action Network, GA Rural Urban Summit, IA Citizen Action Network, ID Community Action Network, United Vision for ID, Citizen Action/IL, Dirigo Alliance (ME), ME Peoples Alliance, MI Citizen Action, MO Progressive Vote Coalition, MT Peoples Action, ND Progressive Coalition, NH Citizens Alliance, NJ Citizen Action, Progressive Alliance for Community Empowerment of NM, Citizen Action of NY, OR Action, Citizens for Consumer Justice (PA), Ocean State Action (RI), SC Progressive Network, TN Citizen Action, TX Citizen Action, WA Citizen Action, WI Citizen Action

Regional and national members: American Federation of State, County, and Municipal Employees; Communications Workers of America; Democracy South; Midwest Academy; Midwest States Center; Northeast Action, Northwest Federation of Community Organizations; Progressive Action Network; Service Employees International Union; United States Student Association

Citizens for Tax Justice, founded in 1979, is a 501 (c)(4) public interest research and advocacy organization focusing on federal, state and local tax policies and their impact upon our nation. CTJ's mission is to give ordinary people a greater voice in the development of tax laws. Against the armies of special interest lobbyists for corporations and the wealthy, CTJ fights for:

- I. Fair taxes for middle and low-income families
- II. Requiring the wealthy to pay their fair share
- III. Closing corporate tax loopholes
- IV. Adequately funding important government services
- V. Reducing the federal debt
- VI. Taxation that minimizes distortion of economic markets